

## Message Text

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PAGE 01 STATE 106973  
ORIGIN COME-00

INFO OCT-01 EUR-12 ISO-00 EB-08 TRSE-00 L-03 OPIC-03  
STR-07 /034 R

DRAFTED BY COM/BEWT/USSR/TDAD/SBOZEK/JBROUGHER/DSTEIN  
APPROVED BY STATE/EB/ITP/EWT:DFRIED:CLP  
COM/BEWT/TDAD/RFSTECHSCHULTE  
COM/BEWT/USSR/HWHEISS  
TREASURY/OIT/MFIELD (PHONE)  
TREASURY/EWTP/PMCCARTHY (PHONE)  
STATE/EUR/SOV/WEDGAR  
EUR/SOV:JLCOLBERT

-----064262 270225Z /14

P 262244Z APR 78  
FM SECSTATE WASHDC  
TO AMEMBASSY MOSCOW PRIORITY

C O N F I D E N T I A L STATE 106973

E.O. 11652: GDS

TAGS: BEWT, BGEN, ETRD, UR, US, UK

SUBJECT: TAXES ON WESTERN FIRM INCOME EARNED IN THE U.S.S.R.

1. AS EMBASSY IS AWARE BAKER INTERNATIONAL OF CALIFORNIA IS COOPERATING WITH MANNESMAN IN BID FOR GAS-LIFT PROJECT IN TYUMEN REGION. ROBERT B. EMMONS, DIRECTOR OF TAXES FOR BAKER INT'L, IS CONCERNED, HOWEVER, ABOUT SOVIET AND AMERICAN TAX LAW, SINCE IT COULD HAVE A SIGNIFICANT IMPACT ON BAKER'S PRICING OF ITS EQUIPMENT.

2. AS THE DEAL IS TENTATIVELY STRUCTURED, ACTUAL SALES TO SOVIETS WOULD BE BY BAKER-CONTROLLED COMPANIES IN THE U.K. AND PANAMA. ACCORDING TO EMMONS, UNDER SUBPART F OF IRS CODE, U.S. TAX COULD BE IMPOSED ON THE PROFITS OF THESE  
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SALES, EVEN IF THE PROFITS WERE NOT REPATRIATED. HOWEVER, IF BAKER CAN SHOW THAT IT IS SOVIET PRACTICE NOT TO TAX INCOME FROM OPERATIONS CONDUCTED BY A FOREIGN CORPORATION IN THE USSR, IT MAY BE ABLE TO AVOID THE U.S. TAX. IRS WOULD NORMALLY REQUIRE STATEMENT FROM THE SOVIET GOVERNMENT TO THIS EFFECT, BUT BAKER IS RELUCTANT TO REQUEST SUCH A STATEMENT FROM THE SOVIET FOREIGN TRADE ORGANIZATION.

3. BAKER HAS SUGGESTED THAT BEWT WRITE BAKER A LETTER STATING THAT THE SOVIETS DO NOT IMPOSE ANY INCOME TAXES ON SALES OPERATIONS CONDUCTED BY FOREIGN CORPORATIONS IN THE U.S.S.R. TO OUR KNOWLEDGE, THE ONLY TAX IMPOSED BY THE SOVIETS ON FOREIGN COMMERCIAL ENTITIES IS A TAX ON COPYRIGHT ROYALTIES. WE ARE AWARE OF A 1936 SOVIET PROVISION THEORETICALLY IMPOSING A ONE QUARTER OF ONE PERCENT SALES TAX ON FOREIGN ENTITIES THAT HAVE OFFICES IN THE U.S.S.R., BUT WE UNDERSTAND THAT THIS TAX IS NOT IMPOSED IN PRACTICE. UNDER U.S.-SOVIET TAX TREATY, U.S. FIRMS ARE NOW EXEMPT FROM SUCH TAXES, BUT AS FAR AS WE CAN DETERMINE, THEY HAD NEVER BEEN APPLIED EVEN BEFORE TAX TREATY.

4. ACTION REQUESTED: EMBASSY REQUESTED TO CONFIRM ABSENCE OF TAX OBLIGATIONS ON FOREIGN COMMERCIAL ENTITIES WITH OTHER WESTERN EMBASSIES IN MOSCOW. IF EMBASSY DEEMS IT APPROPRIATE, IT MIGHT BE USEFUL TO APPROACH MINISTRY OF FINANCE ON THIS QUESTION. ANY STATEMENT FROM MINISTRY OF FINANCE, EVEN AN INFORMAL ONE, MIGHT PROVE USEFUL TO US AND TO BAKER.

SLUG RESPONSE BEWT/TDAD/USSR.

FYI: SOVIET TRADE REPRESENTATION LEGAL ADVISOR TISCHENKO HAS CONFIRMED THAT NO SOVIET TAX LIABILITIES (OTHER THAN CONFIDENTIAL

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ON COPYRIGHT ROYALTIES) ARE INCURRED BY FOREIGN COMMERCIAL ENTITIES IN THE U.S.S.R. HE TOLD BAKER THAT HE WAS NOT AUTHORIZED TO PUT THIS IN WRITING, BUT THAT HE WOULD MEET WITH IRS TO MAKE AN ORAL STATEMENT TO THAT EFFECT. VANCE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TAXES, INCOME TAXES, BUSINESS FIRMS, MULTINATIONAL CORPORATIONS, CONTRACTS, PROGRAMS (PROJECTS)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 26 apr 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978STATE106973  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** BEWT/USSR/TDAD/SBOZEK/JBROUGHER/DSTEIN  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780179-0634  
**Format:** TEL  
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**Handling Restrictions:** n/a  
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**Legacy Key:** link1978/newtext/t19780413/aaaaakpl.tel  
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**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
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**Message ID:** 2aa82fa7-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN COME  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 17 jun 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2837961  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** TAXES ON WESTERN FIRM INCOME EARNED IN THE U.S.S.R.  
**TAGS:** BEXP, BGEN, ETRD, UR, US, UK, BAKER INTERNATIONAL  
**To:** MOSCOW  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/2aa82fa7-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
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20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014